FINAL ANALYSIS OF ACQUISITION CANDIDATES

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UNITED STATES, West Coast
2471 East Bayshore Road
alifornia 94303
00

East Coast
-1
Jersey 07662

Floor)

Merriwa Street
N.S.W. 2072

JAPAN
Overseas Data Service Company, Ltd.
Shugetsu Building, No. 12-7 Kita Aoyama
3-Chome Minato-Ku
Tokyo, 107
Japan
(03) 400-7090

FINAL ANALYSIS OF ACQUISITION CANDIDATES

Prepared For:

PITNEY-BOWES

JUNE 1980

FINAL ANALYSIS OF ACQUISITION CANDIDATES

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FINAL ANALYSIS OF ACQUISITION CANDIDATES

LIST OF EXHIBITS

I INTRODUCTION

I INTRODUCTION

- This report contains a detailed analysis of five companies in the computer industry that were selected from a previous list of 24 potential acquisition candidates. The selection of these five companies was made by Pitney-Bowes' management personnel.

- Each description contains detailed information concerning the company, together with INPUT's rationale for the company as an acquisition candidate. Also, each company report contains INPUT's suggestions as to the approach Pitney-Bowes might take in initiating acquisition discussions.

II EXECUTIVE SUMMARY

II EXECUTIVE SUMMARY

- The five companies described in this report are those firms selected as final acquisition candidates from an initial list of almost 100 companies originally selected for review by INPUT. Approximately 300 companies were reviewed to develop the original group of 100 companies. This list of 100 companies was then reduced to a group of 24 companies by INPUT, in conjunction with Pitney-Bowes' management. A brief report was prepared for each of the 24 companies.

- A joint Pitney-Bowes/INPUT meeting was held to review the 24 companies. Subsequently, Pitney-Bowes' management personnel selected the five companies to be reported on in detail.

- INPUT then performed a detailed analysis on each of the five firms and the reports contained in this document. In each case, a member of the INPUT staff was able to gain "non-public" data to provide Pitney-Bowes' management with further insights into each company.

ACQUISITION CANDIDATE SELECTION STUDY

ANACOMP, INC.

I ANACOMP, INC. - COMPANY CHARACTERISTICS

I ANACOMP, INC. - COMPANY CHARACTERISTICS

A. SUMMARY DATA

ANACOMP, INC. 11550 North Meridian Suite 600 Carmel (Indianapolis), IN 46032 (317) 257-6555	Ronald D. Palamara, President and Chairman
Public Corporation	
Subsidiaries:	Anacomp Micrographics, Inc. Access Data Systems, Inc. Anacomp Leasing Co., Inc. Computer Services Corporation Electronic Data Preparation Corporation ERCO, Inc. Excom, Inc. Sci-Tek Associates, Inc.
Fiscal Year End:	June 30
Total Employees:	900
Stock Listing:	OTC
Company Founded:	1968
Products:	Software services Computer services - financial Computer services - government Facility management services Turnkey minicomputer systems Micrographic services
Major Locations:	Carmel, IN 46032 Sarasota, FL 33577 Bradenton, FL 33450 South San Francisco, CA 94080 Greenfield, IN 46140 Winston-Salem, NC 27102 Dayton, OH 45409

Fresno, CA 93704
Ontario, CA 91761
Indianapolis, IN 46250
Southfield, MI 48075
Bellevue, WA 98006
Boise, ID 83706
Portland, OR 97223
Spokane, WA 99204
Phoenix, AZ 85015
Colorado Springs, CO 80915
Seville, OH 44273
Indianapolis, IN 46204
Bradenton, FL 33505
Atlanta, GA 30338
Boston, MA 02108
Tallahassee, FL 32301
Cincinnati, OH 45202
Cleveland, OH 44114
Columbus, OH 43215
Dayton, OH 45402
Raleigh, NC 27611
Winston-Salem, NC 27102

B. HISTORY

- Anacomp was organized in Indiana in 1968 by a group of faculty members and consultants whose common contact was Purdue University. The company was originally established to provide software development services, and a considerable amount of that activity was devoted to developing applications software for the NCR Corporation.

- Anacomp entered the computer service business (providing transaction-oriented services) through acquisitions during the first four years of its existence. Since then the company has grown continuously through acquisition.

- In addition to providing computer services, Anacomp also provides what it refers to as micrographics services, which are basically computer-onto-microfilm (COM) services. Anacomp entered this business through a marketing agreement, since terminated, with a company known as the Kalvar Corporation.

- More recently Anacomp has entered the turnkey minicomputer business through the acquisition of Escom, Inc., in 1978.

- The most significant growth in the company's history stems from the recent key acquisitions shown in Exhibit I-1:

  - Sci-tek Associates - 1978.

    - This was an acquisition of a company that had provided both facilities management and software services to state and local governments. When acquired, Sci-tek's revenues were approximately $750,000.

  - Escom, Inc. - 1978.

    - Escom, located in Seattle (WA) provides minicomputer-oriented software. This acquisition enabled Anacomp to enter the minicomputer system integration field. When Escom was acquired, its annual revenues were approximately $5 million.

  - Computer Services Corporation - 1978.

    - Anacomp's acquisition of Computer Services Corporation enabled Anacomp to enter the credit union processing business on an on-line basis. When CSC was acquired, its reveneus were approximately $3,600,000.

  - Access Data Systems, Inc. - 1979.

EXHIBIT I-1

RECENT ACQUISITIONS

COMPANY AND DATE ACQUIRED	THREE FISCAL YEARS PRIOR TO ACQUISITION	SALES (BY FISCAL YEAR)	EARNINGS (LOSS) (BY FISCAL YEAR)	EARNINGS (LOSS) PER SHARE (BY FISCAL YEAR)	TOTAL ASSETS AT TIME ACQUIRED
SCI-TEK ASSOCIATES, INC.	FISCAL YEARS 1976 (a)	–	–	–	
(EFFECTIVE AS OF	ENDING 1977 (a)	–	–	–	$ 158,623
AUGUST 1, 1978)	JUNE 30 1978 (a)	$ 741,040	$ (85,185)	$ (.76)	
ESCOM, INC.	FISCAL YEARS 1976 (b)	1,193,954	817	.01	
(EFFECTIVE AS OF	ENDING 1977	3,743,014	124,597	2.08	$2,059,128
SEPTEMBER 1, 1978)	MARCH 31 1978	4,961,042	(367,639)	(6.13)	
COMPUTER SERVICES CORP.	FISCAL YEARS 1976	5,077,500	(299,400)	(0.33)	
(EFFECTIVE AS OF	ENDING 1977	4,227,700	(26,000)	(0.03)	$1,756,436
OCTOBER 1, 1978)	APRIL 30 1978	3,581,600	80,600	0.09	
ACCESS DATA SYSTEMS, INC.	FISCAL YEARS 1976 (c)	892,509	37,014	(d)	
(EFFECTIVE AS OF	ENDING 1977 (c)	1,169,888	65,309	(d)	$ 623,959
JANUARY 1, 1979)	OCTOBER 31 1978 (c)	1,499,954	76,605	(d)	
ERCO, INC.	FISCAL YEARS 1976 (e)	–	–	(f)	
(EFFECTIVE AS OF	ENDING 1977 (c)	1,489,297	(169,017)	(f)	$ 214,530
MARCH 31, 1979)	DECEMBER 31 1978 (c)	1,550,937	(119,768)	(f)	
CERTAIN ASSETS OF WACHOVIA SERVICES, INC. (CLOSING OCT. 2, 1978)	(g)	(g)	(g)	(g)	$3,059,000

(a) FINANCIAL STATEMENTS UNAVAILABLE AS TO FISCAL YEARS ENDING JUNE 30, 1976 AND 1977; UNAUDITED AS TO FISCAL YEAR ENDING JUNE 30, 1978.

(b) AUDITED FINANCIAL STATEMENTS OF ESCOM, INC. PRIOR TO THE FISCAL YEAR ENDED MARCH 31, 1977, ARE NOT AVAILABLE AND, BECAUSE NO INDEPENDENT ACCOUNTANTS WERE PRESENT TO OBSERVE THE TAKING OF ESCOM, INC.'S INVENTORY ON APRIL 1, 1975, UNAUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1976, ARE NOT BELIEVED TO BE VERIFIABLE TO THE EXTENT NECESSARY TO PERMIT CERTIFICATION.

(c) NOT SEPARATELY AUDITED.

(d) OPERATED AS A WHOLLY OWNED SUBSIDIARY OF URS CORPORATION PRIOR TO ACQUISITION.

(e) FINANCIAL STATEMENTS UNAVAILABLE AS TO FISCAL YEAR ENDING DECEMBER 31, 1976.

(f) OPERATED AS A WHOLLY OWNED, SECOND-TIER SUBSIDIARY OF THE NCR EMPLOYEES CREDIT UNION, INC. PRIOR TO ACQUISITION.

(g) THE COMPANY PURCHASED CERTAIN ASSETS AND ASSUMED CERTAIN LIABILITIES FROM WACHOVIA SERVICES, INC.

- Access Data Systems is another credit union processing company. When it was acquired, its revenues were approximately $1,500,000.

- ERCO, Inc. - 1979.

  - A third credit union processing company. When acquired, ERCO's revenues were approximately $1,600,000.

- Wachovia Services, Inc. - 1978.

  - Anacomp acquired certain assets and liabilities of Wachovia Services, Inc., a computer service company operating as a wholly-owned subsidiary of the Wachovia Bank in North Carolina. In effect, Anacomp acquired those assets of Wachovia Services which were devoted to servicing banks other than the parent company. This gave Anacomp a strong entree into the bank services marketplace.

- At the present time, Anacomp views itself as offering two fundamental types of services. The first and larger set of services are computer services. The second set of services are COM services. Each of these services has been enhanced by internal growth, product development and additional acquisitions. These services will be described in more detail within Section II: Products, Services and Markets.

C. LOCATIONS

- It should be noted that the bank services division's operations are primarily in California, the Southeast and the Midwest. The Southeast and California locations are primarily a function of the acquisition of Wachovia. The data services division locations are primarily in the Midwest and Far West. Again, this is a function of the various acquisitions made by Anacomp.

- The government services division is located primarily in the Indianapolis area, Boston and the Southeast. In general, it should be noted that, as far as data processing services are concerned, Anacomp does not have any presence in the Northeast with the exception of its one facility in Boston (MA). It is believed that this data center does a relatively small part of Anacomp's overall data services revenue volume.

- Anacomp's micrographics division is primarily in the Midwest (Indiana and Ohio) and in North Carolina. Thus the division is quite limited in terms of geographic coverage.

D. ORGANIZATION

- Anacomp is divided into four separate divisions as follows:

    - Software Services.

    - Facilities Management.

    - Data Services.

    - Micrographics.

- Each division is headed by a division manager who in turn supervises a number of profit center managers. Each division is relatively autonomous and self-sufficient within the context of the overall Anacomp corporate umbrella. Within this type of organization, the corporate entity provides staff services to each of the divisions, but each division is expected to be independent as far as line operating activities are concerned. All division managers and their respective profit center managers are compensated through a high-incentive program. With this compensation program in place, profit center managers look upon their respective profit center as their own business, which they are expected to operate autonomously.

- As mentioned earlier, Anacomp has grown in large measure through acquisition. In any services company that grows in this manner, there is the need for a relatively high degree of autonomy within the organization. While integration of a new acquisition is always a stated goal, this goal is often delayed or, in many cases, not achieved at all. Further, it is very difficult to retain the management of an acquired company when the acquiring company's goal is to place a stamp of commonality on each profit center. Thus, because of its form of management compensation and because of its history of growth through acquisition, each of the operating entities within Anacomp is, relatively speaking, independent.

II PRODUCTS, SERVICES AND MARKETS

II PRODUCTS, SERVICES AND MARKETS

A. SOFTWARE SERVICES DIVISION

- This division generates approximately 20% of Anacomp's revenues. (All divisional revenue figures are INPUT estimates, as Anacomp does not release this information.) The software services division produces bank application software for use with NCR equipment. It should be noted that this existing entree into the bank software marketplace provided one of the primary reasons for Anacomp to acquire Wachovia Services, which was NCR-oriented.

- The Anacomp software basically consists of two major packages:

  - One is a customer information file (CIF) applications package, which is a total bank applications package built around the use of a single entry in the computer file containing all of the relevant information about a bank customer. It is well recognized that any "state-of-the-art" bank package has to be CIF-oriented in the future. Thus, this has been considered a viable package for Anacomp. However, to the degree that it is NCR-oriented, it is aimed at only a relatively small percentage of the overall financial services marketplace. Anacomp has indicated that it is engaged in reprogramming its CIF package in COBOL so it is relatively machine-independent. If and when it is successful, Anacomp will be able to sell to a much broader spectrum of the financial industry marketplace.

- The second major package produced by the Anacomp Software Services Division is a package that is referred to as CIS, Continuous Integrated System. This package is designed to be an on-line package that will enable a financial institution to update its data base continuously as transactions are processed during the course of a business day. Today, most financial applications packages are designed around a memo-posting concept. That is, transactions are received on-line but are applied to a subsidiary data base which is then used in a batch processing mode during the evening hours to update the financial institution's data base. While CIS is a state-of-the-art system, it is doubtful that many members of the financial community are both able to utilize and willing to pay for such a package at this time. However, it is recognized that at some time in the future, the major financial institutions will demand such an applications package.

- In addition, Anacomp Software Services Division generates customized, government-oriented applications software which is then run in Anacomp's data centers for various government organizations. Anacomp states in its annual report that 28% of its revenues are generated from government processing services. It does not indicate how much of this revenue is from software development and how much is from data center operations for state agencies.

B. FACILITIES MANAGEMENT DIVISION

- This division also generates approximately 28% of Anacomp's total revenues. The majority of the Anacomp facilities management contracts are with a number of state and local government agencies throughout the Midwest.

- As stated above, a number of these FM installations utilize software developed by the software services division. INPUT estimates that one-half of Anacomp's geographical locations are, in reality, facilities management loca-

tions; i.e., locations within which Anacomp is managing the resources of another organization.

- There are approximately 25-30 facilities managment customers. To the best of INPUT's knowledge, almost all of these customers are state and local government agencies. At one time, Anacomp did manage a few bank data centers under facilities management contracts; but apparently all of these contracts have been terminated.

- According to a 1979 10K report, Anacomp indicated that facilities management fees from various State of Indiana agencies resulted in approximately 14% of the company's total revenues during fiscal year 1979. This indicates the relative importance of government facilities management contracts and, in particular, State of Indiana facilities management contracts.

C. DATA SERVICES DIVISION

- This division generates approximately 25% of Anacomp's total revenues. Most of the Data Services Division's applications are on-line, oriented towards financial institutions (banks, savings and loans and credit unions) and government agencies. This banking software is either Anacomp's own software as described above, or the result of acquisition (i.e., customized software which was already in use prior to the acquisition).

- It is within this division that Anacomp has placed its Escom acquistion. Like most other service companies, Anacomp is looking at minicomputer technology as a new way of delivering computer services to its clients. Therefore it is logical to believe that the Escom product line will be used as either an intelligent terminal within the Anacomp Data Services Division or a stand-alone minicomputer for certain clients who do not require the use of the Anacomp network.

- It is INPUT's opinion that this is a very logical approach for Anacomp (or any other similar company) because the financial marketplace is beginning to demand on-site computation services requiring the use of minicomputers which at times will be part of an overall network and at other times, part of a standalone computer facility.

- While the state and local government marketplaces are not as sharply defined, a similar approach is feasible due to the great degree of standardization among state and local governments.

• It is INPUT's opinion that the Escom acquisition and the approach being used by Anacomp on a post-acquisition basis are correct, and will place Anacomp in a highly competitive position concerning future data services market activities.

D. MICROGRAPHICS DIVISION

• Anacomp operates seven separate COM centers providing computer-onto-microfilm services in various locations throughout the Midwest. While the micrographics service revenues continue to grow, they are growing at a rate such that they generate a decreasing percent of Anacomp's total revenue base. It should be noted that approximately one year ago, Anacomp acquired a company named Computer Micrographics, Inc., at a cost of approximately $11.6 million in stock. This acquisition gave Anacomp an entree into the COM marketplace in major cities such as Chicago, New York and Atlanta.

• One of the stated goals of Anacomp is the use of its Micrographics Division as a potential entree into providing information directly to consumers through the use of computer technology, COM technology and the use of the home television set as a receiving device in individual homes.

III FINANCIAL SUMMARY

III FINANCIAL SUMMARY

- The financial summary information tabulated in Exhibits III-1 and III-2 has been extracted from Anacomp's 1979 annual report and 10-K report.

EXHIBIT III-1

FIVE-YEAR SUMMARY OF OPERATIONS FOR ANACOMP, INC., AND SUBSIDIARIES

YEAR ENDED JUNE 30	1979	1978	1977	1976	1975
REVENUES	$38,118,154	$21,618,900	$16,183,279	$12,850,946	$8,922,391
OPERATING COSTS AND EXPENSES					
OPERATING COSTS AND EXPENSES	31,690,575	17,626,806	12,985,132	10,483,245	7,159,143
DEPRECIATION AND AMORTIZATION	1,813,823	909,646	839,083	872,773	690,283
	33,504,398	18,536,452	13,824,215	11,356,018	7,849,426
	4,613,756	3,082,448	2,359,064	1,494,928	1,072,965
OTHER INCOME (EXPENSE)					
INTEREST EXPENSE	(754,941)		(389,120)	(130,364)	(127,238)
OTHER	1,212,770	483,969	336,028	210,831	88,744
	457,829	94,849	95,174	80,467	(37,494)
INCOME BEFORE PROVISION FOR INCOME TAXES AND EXTRAORDINARY ITEM	5,071,585	3,177,297	2,454,238	1,575,395	1,035,471
PROVISION FOR INCOME TAXES	2,419,000	1,619,000	1,262,000	740,000	519,000
INCOME BEFORE EXTRAORDINARY ITEM	2,652,585	1,558,297	1,192,238	835,395	516,471
EXTRAORDINARY ITEM (a)	-	-	-	-	359,260
NET INCOME	$ 2,652,585	$ 1,558,297	$ 1,192,238	$ 835,395	$ 875,731
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE (b)					
BEFORE EXTRAORDINARY ITEM	0.94	0.66	0.52	0.33	0.22
EXTRAORDINARY ITEM	-	-	-	-	0.16
NET INCOME	$ 0.94	$ 0.66	$ 0.52	$ 0.33	$ 0.38
EARNINGS PER COMMON SHARE ASSUMING FULL DILUTION (b)					
BEFORE EXTRAORDINARY ITEM	0.83	0.53	0.45	0.33	0.21
EXTRAORDINARY ITEM	-	-	-	-	0.14
NET INCOME	0.83	$ 0.53	$ 0.45	$ 0.33	$ 0.35
CASH DIVIDENDS PER COMMON SHARE	$ 0.14	$ 0.10	$ 0.02	-	-

(a) THE EXTRAORDINARY ITEM IN FISCAL 1975 REPRESENTS THE TAX BENEFIT DERIVED FROM UTILIZATION OF NET OPERATING LOSS CARRYFORWARDS.
(b) ALL PER SHARE AMOUNTS HAVE BEEN ADJUSTED FOR ALL STOCK SPLITS AND STOCK DIVIDENDS DECLARED.

EXHIBIT III-2

CONSOLIDATED BALANCE SHEET FOR ANACOMP, INC., AND SUBSIDIARIES

ASSETS	JUNE 30 1979	JUNE 30 1978
CURRENT ASSETS:		
CASH (INCLUDING TEMPORARY INVESTMENTS OF $2,161,220 and $3,066,790 RESPECTIVELY)	$ 3,159,098	$ 3,721,103
ACCOUNTS RECEIVABLE, LESS ALLOWANCES OF $217,500 AND $147,650 RESPECTIVELY FOR DOUBTFUL ACCOUNTS	6,594,531	3,321,102
NOTES RECEIVABLE	456,977	-
UNBILLED REVENUES	3,391,284	1,011,256
INVENTORIES	969,997	671,049
PREPAID EXPENSES (INCLUDING INCOME TAXES OF $115,000 AND $54,000 RESPECTIVELY)	715,788	341,012
TOTAL CURRENT ASSETS	$15,287,675	$ 9,065,522
PROPERTY AND EQUIPMENT		
LAND	176,998	-
BUILDING	355,667	-
OFFICE FURNITURE	697,271	294,801
PROCESSING EQUIPMENT	9,164,232	3,888,444
LEASEHOLD IMPROVEMENTS	135,429	74,607
	10,529,597	4,257,852
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	3,315,632	2,081,509
	7,213,965	2,176,343
OTHER ASSETS:		
INVESTMENT IN COMPUTER MICROGRAPHICS, INC. . . .	1,733,379	-
OTHER INVESTMENTS	522,739	-
NOTES RECEIVABLE	211,064	203,031
EXCESS OF PURCHASE PRICE OVER NET ASSETS OF BUSINESSES ACQUIRED, LESS ACCUMULATED AMORTIZATION OF $195,997 AND $106,413 RESPECTIVELY	1,960,143	210,675
EMPLOYMENT AND NONCOMPETE AGREEMENTS, LESS ACCUMULATED AMORTIZATION OF $145,079 AND $79,109 RESPECTIVELY)	204,284	59,754
DEFERRED DEBENTURE COSTS, LESS ACCUMULATED AMORTIZATION OF $59,907 AND $43,917 RESPECTIVELY	467,827	193,558
DEFERRED CHARGES AND OTHER	5,217,583	887,714
	$27,719,223	$12,129,579

EXHIBIT III-2 (CONT.)

CONSOLIDATED BALANCE SHEET FOR ANACOMP, INC., AND SUBSIDIARIES

LIABILITIES AND STOCKHOLDERS' EQUITY	JUNE 30	
	1979	1976
CURRENT LIABILITIES:		
NOTES PAYABLE	$ 750,000	$ -
CURRENT PORTION OF LONG-TERM DEBT	2,366,786	333,687
ACCOUNTS PAYABLE	2,748,590	862,806
ACCRUED SALARIES, WAGES AND BONUSES	1,407,145	407,194
DIVIDENDS PAYABLE	106,356	66,472
OTHER ACCRUED LIABILITIES	795,799	804,105
INCOME TAXES	1,844,724	804,105
TOTAL CURRENT LIABILITIES	10,019,400	2,708,227
LONG-TERM DEBT, NET OF CURRENT PORTION	7,523,776	3,049,799
DEFERRED INCOME TAXES	264,000	82,000
MINORITY INTEREST	164,435	44,016
STOCKHOLDERS' EQUITY:		
COMMON STOCK-$1 PAR VALUE, AUTHORIZED 5,000,000 SHARES, 2,983,427 AND 1,457,242 SHARES ISSUED, RESPECTIVELY	2,983,427	1,457,242
CAPITAL IN EXCESS OF PAR VALUE OF COMMON STOCK	6,632,971	4,238,484
RETAINED EARNINGS	1,609,603	1,990,206
	11,226,001	7,685,932
COST OF 147,505 SHARES OF COMMON STOCK HELD IN TREASURY	(1,344,692)	(1,344,692)
	9,881,309	6,341,240
UNAMORTIZED EMPLOYMENT AND NONCOMPETE AGREEMENTS	(134,697)	(95,703)
TOTAL STOCKHOLDERS' EQUITY	9,746,612	6,245,537
	$27,719,223	$12,129,579

IV MANAGEMENT AND REPUTATION

IV MANAGEMENT AND REPUTATION

- Given that the best gauge of management's capability is the company's financial statements, Anacomp's management is exceptionally strong. In addition to showing continuous, year-to-year improvement in financial results, it has accomplished what very few other companies have been able to do: successful integration of a number of acquisitions into the parent company without a significant negative effect on either the profit and loss statement or the balance sheet. In INPUT's opinion, Anacomp's success is a product of adhering to two key principles:

  - The company has expanded via acquisition only in those product and market areas it already knows well.

  - Once a company is acquired, Anacomp has had good success in retaining the acquired company's management through a carefully structured compensation program.

- Ronald Palamara, President and Chairman, is clearly the driving force behind Anacomp. Palamara has a strong personality and is personally involved in each significant decision affecting Anacomp. Palamara has firmly established his reputation as a rather egotistical, domineering individual. However, he does find a way to work with his various division Presidents in a successful working relationship so that top managment turnover within Anacomp has been very minimal. An individual such as Palamara can work with others if he is willing to provide a high degree of autonomy and a high degree of incentive

compensation. This is clearly the case within Anacomp and is a factor crucial to its success.

- The various division managers are known as competent individuals and have certainly been successful in running their respective divisions. However, either by accident or design, the division managers maintain a low public profile and are not normally prominent in the industry press or in various industry associations.

- Anacomp has a small Board of Directors consisting of six individuals, two of whom are insiders: Palamara and Stanley Hirschfeld, Vice President of Finance. The four outside directors are reportedly totally dominated by Palamara. Therefore, even though Anacomp is a public corporation, it is run to a large extent like a privately held company. Any negotiations concerning acquisition of Anacomp would be held directly with Palamara as Anacomp's chief negotiator.

V ACQUISITION-RELATED DATA

V ACQUISITION-RELATED DATA

A. COMPATIBILITY WITH PITNEY-BOWES' GOALS

- Anacomp is a well-rounded computer service company. It has a strong software development capability, although this capability is directed to only two major market areas: financial institutions and government agencies. In addition, it has a network of on-line data centers which are linked to their respective clients by leased, common carrier lines. From the point of view of delivering products or services, the computer services capabilities within Anacomp are basically state-of-the-art, tempered by the necessary constraints to make a profit in the computer services industry. One of the weaknesses of Anacomp, however, is its heavy concentration of activities and revenues in the Midwest, particularly in the State of Indiana.

- Another strong plus when considering Anacomp's possible acquisition by Pitney-Bowes is its strong management structure. Anacomp remains lean at the corporate level, but has strong decentralized management in each of its profit center locations. A careful selection of individuals from this management structure could be of importance to Pitney-Bowes in furthering its future technological progress. It is INPUT's opinion that Anacomp has sufficient in-depth management to allow a relatively small, select group of Anacomp managers to work at length with Pitney-Bowes' management without a significantly adverse effect on the actual day-to-day or year-to-year operations of Anacomp's various data services activities.

- The combination of Anacomp's Micrographics division with its other, more directly related computer service divisions, provides a blend of technology which is unusual in high technology companies. The micrographics/publishing entree, combined with on-line delivery of computer services and Anacomp's strong entree into minicomputer technology (Anacomp now has over 200 minicomputer installations), provides a blend of technology which could accelerate Pitney-Bowes' approach to the "office of the future."

- There are two negatives points which should be mentioned concerning Anacomp's potential as an acquisition candidate for Pitney-Bowes:

  - The personality of its president and chairman would make the negotiations for the acquisition of Anacomp difficult. It is commonly held belief that Anacomp would not enter into negotiations concerning its acquisition by another firm. It is INPUT's belief that this is a false notion in that, above all else, Palamara is a businessman. Therefore, if another company were able to approach Anacomp seriously with an attractive acquisition offer, Palamara would, in INPUT's opinion, be willing seriously to review and negotiate such an offer.

  - The majority of the Anacomp stock is controlled by insiders, yet this offers a distinct advantage to an acquiring company from the point of view of the potential for creating a significant return on the investment by the shareholders, both insiders and outsiders.

B. ACQUISITION APPROACH

- In the event that Pitney-Bowes intends to pursue the acquisition of Anacomp, the following steps are suggested:

  - A detailed review of the company should be made without disclosing the identity of Pitney-Bowes or its intentions. It is INPUT's opinion that,

based on this report and other public documents, Pitney-Bowes should be able to formulate its level of interest and, if appropriate, develop the details of an offer for the acquisition of Anacomp.

- Once the general guidelines as to the alternative and nature of the payment for Anacomp are formulated, it is INPUT's opinion that an indirect approach to Palamara should be made through a respected third party. A respected third party could include a prestigious banking firm, a legal firm or someone else whose very interest would appear flattering to Palamara. This latter approach is emphasized because, as stated before, Palamara is egocentric and this trait would have to be used as a weapon by the acquiring company or it may completely disrupt the continuity of acquisition discussions.

- It is INPUT's suggestion that the financial package include a cash price which would be satisfactory to both the insiders and the outsiders and, at the same time, would take the outsiders out of the picture. In addition, it is suggested that part of the acquisition be constructed to include certain incentives for key management to remain and run Anacomp.

- Assuming the third party meets with success in interesting Anacomp in acquisition discussions, INPUT suggests that the next step be a face-to-face meeting between Mssrs. Allen and Palamara to discuss mutual goals and objectives. INPUT suggests that this first meeting not include any financial discussions or negotiations but rather be a broad-based discussion of potential future goals and objectives.

- If these discussions prove fruitful, then the initial financial discussions should also take place between Mssrs. Allen and Palamara, perhaps together with a relatively few financial and technical advisers. If these discussions are successful, then there should be swift movement towards an agreement in principle and a public announcement on the part of both firms.

- Once a public announcement is made, Pitney-Bowes can, without subterfuge, go into its in-depth technical and financial evaluation of Anacomp.

ACQUISITION CANDIDATE SELECTION STUDY

COMPUTER CONSOLES INC.

I COMPUTER CONSOLES - COMPANY CHARACTERISTICS

I COMPUTER CONSOLES INC. - COMPANY CHARACTERISTICS

COMPUTER CONSOLES INC.
97 Humboldt Street
Rochester, NY 14609
(716) 482-5000

Herman Affel, Jr., President and Treasurer
Public Corporation, Closely Held
Total Company Sales As Of Fiscal Year 1979: $28 Million

A. SUMMARY DATA

- CCI markets turnkey systems primarily to various telephone operating companies. Its specific products are outlined in Section II. As a supplier of turnkey systems, CCI provides both the hardware and software to users. The total system usually consists of a computerized data base control unit, with disk and tape storage and a variety of input/output devices such as cathode ray tubes, printers, tape readers, punches and card readers. Multiplexors, data sets, communications controllers and adapters are used as interfaces for both local and remote system configurations.

- In addition to providing the hardware and software on a turnkey basis, CCI also provides maintenance on their systems.

B. HISTORY

- Computer Consoles was founded in 1968 in Rochester as a communications equipment manufacturer. It has produced a variety of hardware components for data and voice communication systems. Historically, its primary customer has been the operating subsidiaries of AT&T, as well as other telephone operating companies.

- Its first data management system, a system that incorporated a significant amount of software, was developed in the early 1970s and first marketed in 1974. The year 1974 marks the first time CCI began to experience significant growth.

- Much of its subsequent growth has been derived from selling products of increasing technological complexity to a variety of customers basically within the context of the various telephone operating subsidiaries.

- More recently, CCI has created a new product planning department with the charter to capitalize on CCI's expertise in developing reliable and sophisticated distributed file management systems. It is the company's intent to take its expertise, which has so far been directed at narrow market segments, and expand it to develop a series of products directed towards a more broadly based series of market segments.

C. LOCATIONS

- Computer Concepts has been located in Rochester (NY) since its founding in 1968. It currently has a significant number of field sales and service locations throughout the U.S. and Canada (plus one field location in Australia). A complete list of field locations is as follows:

- Rochester, NY
- Birmingham, AL
- San Francisco, CA
- Denver, CO
- Atlanta, GA
- Chicago, IL
- Indianapolis, IN
- Minneapolis, MN
- Kansas City, MO
- St. Louis, MO
- Omaha, NB
- Somerset, NJ
- Cleveland, OH
- Nashville, TN
- Dallas, TX
- Houston, TX
- Albany, NY
- Buffalo, NY
- Dunkirk, NY
- Halifax, Nova Scotia, Canada
- Toronto, Ontario, Canada
- New Haven, CT
- Washington, D.C.
- Baltimore, MD
- Columbia, MD
- Springfield, MA
- Newark, NJ
- Piscataway, NJ
- New York, NY
- Yonkers, NY
- Philadelphia, PA
- Pittsburgh, PA
- Richmond, VA
- Charleston, WV

- Jacksonville, FL
- Louisville, KY
- New Orleans, LA
- Shreveport, LA
- Charlotte, NC
- Columbia, SC
- Knoxville, TN
- Memphis, TN
- Nashville, TN
- Des Moines, IA
- Omaha, NB
- Columbus, OH
- Sioux Falls, SD
- Phoenix, AZ
- Los Angeles, CA
- Kansas City, MO
- Portland, OR
- Salt Lake City, UT
- Seattle, WA
- Sydney, Australia

D. ORGANIZATION

- The entire management group of CCI is located in Rochester. Reporting to the President is a Vice President of Manufacturing, a Vice President of Marketing, a Vice President-Controller, a Vice President of Corporate Development and a Senior Vice President of Operations. This is a typical, functional organization for a company of this sort and has represented a very stable management group for a number of years. Each of the persons filling the positions named above are members of the board of directors.

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- In addition to the inside officers/directors, there are five outside directors on the CCI board.

- CCI has approximately 400 employees - 325 in Rochester (NY) and the remainder spread throughout the various field locations.

- Functionally, CCI is subdivided as follows:

-	Field maintenance	100	employees
-	Manufacturing	130	employees
-	Engineering (Hardware and Software)	90	employees
-	Marketing	60	employees
-	Administration	20	employees
	TOTAL	400	employees

II PRODUCTS, SERVICES AND MARKETS

II PRODUCTS, SERVICES AND MARKETS

- A brief summary of CCI's products is included below. There is a subsequent, more detailed description of the major CCI products following the outline.

A. PRODUCT SUMMARY

PRODUCTS	CUSTOMERS	APPLICATIONS
DAS/CCI Computerized Directory Assistance System	Telephone Company Assistance bureaus. 27 central sites; 60 remote locations	Helps Directory Assitance operators instantly locate telephone numbers requested of them by a caller.
ISPS International Service Position System	AT & T Long Lines International Operating Centers. I central site by year-end; three more planned during 1980.	Facilitates the placing and recording of those overseas phone calls which cannot be dialed directly by a customer.
PICS/BARS Plug-in Inventory Control System-Business Administration and Records System	Telephone company departments that provide private branch exchanges. I central site.	Provides an order entry and inventory control system for telephone companies to more effectively maintain a variety of records associated with their private branch exchanges.

DAIS Direct Access Intercept System	Telephone Company Intercept Bureaus. 9 central sites; 23 remote locations.	Instantly provides operators with the status of telephone numbers which have been changed or are no longer in service.
F & E Facilities & Equipment System	Telephone Company Engineering Departments. 24 central sites; 23 remote locations.	Provides a modern, automated method of storing, retrieving and updating volumes of records related to trunk, carrier and central office equipment.
OTHER Directory Assistance charging system; coin phone processing system; centralized credit billing system.	A variety of departments in operating telephone companies. 6 central sites; 2 remote locations.	Various functions designed to simplify routine record-keeping tasks.

B. DETAILED PRODUCT DESCRIPTION

- The majority of CCI's products are Computerized Data Management Systems which enable users to store large numbers of records and have these records accessed simultaneously by a number of clerks through keyboard/display terminals. Systems are usually offered as a total operating package already programmed to do the application of the user. Some typical examples of CCI systems are:

  - The Directory Assistance system, (DAS/CCI) mechanizes the storing and updating of the telephone company directory assistance records in a current, accurate manner, while reducing the cost for operators, and, at the same time, permits them to give better customer service. The Directory Assistance System eliminates paper records and provides a number of reports leading to a more efficient directory assistance operation.

- The Facilities and Equipment System is designed to eliminate the problems associated with manual paper record systems. The system provides the telephone company with a mechanized method to store volumes of trunk, carrier and central office equipment records, retrieve these records, assign entities and keep the records up-to-date in an accurate and timely manner without using computer specialists.

- The (Direct Access Intercept System) DAIS mechanizes the storing and updating of telephone company intercept records in a current, accurate manner, while reducing the cost for operators and, at the same time, permitting them to give better customer service. The DAIS eliminates paper records and provides a number of reports leading to a more efficient intercept operation.

- The International Service Position System (ISPS) is used by telephone operators to look up rate and route information and record details for overseas calls.

- The Plug-in Inventory Control System/Business Administration and Records Systems (PICS/BARS), developed in conjunction with Bell Laboratories, keep records on business private branch exchange systems' features and equipment, and maintains spare parts inventories.

• CCI's data management systems consist of assemblies of electronic parts, components, and sub-assemblies utilizing light manufacturing processes. Sheet metal fabrication, plastic molding, and the materials and components for the systems are purchased from various suppliers and manufacturers. Magnetic tape units, printers, readers, disk drives, computers and other optional peripheral equipment offered as part of its systems are purchased from other manufacturers and interfaced with the company's products. The company is not dependent upon any one supplier or manufacturer.

• The company has no patents or pending patent applications. It is not believed that any of the products now planned by the company will require licenses

under patents owned by others. CCI believes that patents are not necessary for it to compete effectively in its field and believes that its success and growth, if any, will depend upon its engineering, development and marketing efforts, the quality of its products, and the reputation it hopes to establish with its customers. CCI has registered its trademark "CCI-Computer Consoles, Incorporated" in the State of New York and its application for registration of that mark has been granted by the United States Patent Office.

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III FINANCIAL SUMMARY

III FINANCIAL SUMMARY

- CCI has grown from an \$8 million company in 1975 to a \$28 million company in 1979. Its growth in net income has been significant since 1976, which was a year of significant losses.

- A five-year financial summary is included in Exhibit III-1.

- A copy of CCI's detailed FY 1979 and FY 1980 profit and loss statement is shown in Exhibit III-2.

- A comparative balance sheet is contained in Exhibit III-3.

EXHIBIT III-1
COMPUTER CONSOLES INC.
FIVE-YEAR FINANCIAL SUMMARY
($ THOUSAND)

	1979	1978	1977	1976	1975
Operating revenues	$28,072	$17,551	$15,962	$ 8,435	$ 8,466
Operating expenses	22,334	16,156	14,705	8,778	7,348
Operating income (Loss)	5,738	1,395	1,257	(343)	1,118
Interest expense	681	302	245	104	64
Provision for federal & state income Tax	2,283	570	406	--	451
Earnings from finance subsidiary (C)	731	711	246	--	--
Income (loss) before extraordinary item	3,505	1,234	852	(447)	603
Extraordinary item (D)	--	--	--	--	451
Net income (loss)	3,505	1,234	852	(447)	1,054
Dividends paid on 8% preferred stock	--	12	58	103	149
Net income (loss) applicable to common stockholders	$ 3,505	$ 1,222	$ 794	$ (550)	$ 905
Earnings per common share					
Primary					
Before extraordinary item	$ 1.57	$ 0.62	$ 0.46	$ (0.65)	$ 0.36
Extraordinary item	--	--	--	--	0.24
Net income	$ 1.57	$ 0.62	$ 0.46	$ (0.65)	$ 0.60
Assuming full dilution					
Net income	$ 1.51	$ 0.62	$ 0.46	$ (0.65)	$ 0.60

EXHIBIT III-2
COMPUTER CONSOLES INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF INCOME

Year Ended December 31	1979	1978
Revenues		
Sales	$21,661,537	$12,843,641
Rental and service revenue	6,410,777	4,706,902
	$28,072,314	$17,550,543
Cost of revenues		
Cost of sales	8,722,628	$ 5,472,532
Cost of rental and service revenue	4,527,763	3,539,335
	$13,250,391	$ 9,011,867
Gross profit	$14,821,923	$ 8,538,676
Engineering, marketing and administrative costs		
Engineering and development	$ 2,452,786	$ 2,356,492
Marketing	4,383,090	3,306,247
General and administrative	2,248,209	1,480,566
	$ 9,084,085	$ 7,143,305
Income from operations	$ 5,737,838	$ 1,395,371
Interest expense	681,345	301,963
Income before income taxes and earnings of finance subsidiary	$ 5,056,493	$ 1,093,408
Provision for deferred federal and state income taxes	2,283,100	570,400
Income before earnings of finance subsidiary	$ 2,773,393	$ 523,008
Earnings of finance subsidiary	732,068	710,640
Net income	$ 3,505,461	$ 1,233,648

EXHIBIT III-2 (CONT.)

Earnings per common share		
Primary (2,227,351 in 1979 and 2,112,429 in 1978)	$ 1.57	$ 0.62
Assuming full dilution (2,326,211 in 1979 and 2,112,429 in 1978)	$ 1.51	$ 0.62
Subsequent to year end, the company declared a 100% stock distribution payable on March 31, 1980. Earnings per common share retroactively adjusted for this distribution are as follows:		
Primary (4,454,702 in 1979 and 4,224,858 in 1978)	$ 0.79	$ 0.31
Assuming full dilution (4,652,422 in 1979 and 4,224,858 in 1978)	$ 0.75	$ 0.31

EXHIBIT III-3
COMPUTER CONSOLES INC. AND CONSOLIDATED SUBSIDIARIES
BALANCE SHEETS - DECEMBER 31, 1979 AND 1978

	1979	1978
Assets		
Current assets		
Cash	$ 2,356,742	$ 411,749
Accounts receivable	713,879	515,610
Receivable from finance subsidiary	2,367,872	2,695,261
Inventories, at lower of cost (first-in, first out) or market	14,780,459	7,104,341
Prepaid expenses	95,499	107,331
Total current assets	$20,314,451	$10,834,292
Net investment in sales-type leases	$ 563,033	$ 648,612
Equipment subject to operating leases, at cost	$ 2,665,676	$ 2,093,126
Less accumulated depreciation	1,583,698	1,443,498
	$ 1,081,978	$ 649,628
Property, plant and equipment, at cost		
Machinery and equipment	$ 3,878,802	$ 3,035,443
Leasehold improvements	424,762	406,960
	$ 4,303,564	$ 3,442,403
Less accumulated depreciation	2,155,406	1,997,564
	$ 2,148,158	$ 1,444,839
Investment in finance subsidiary	$ 1,088,739	$ 356,671
	$25,196,359	$13,934,042

EXHIBIT III-3 (CONT.)

Liabilities and Stockholders' Investment		
Current liabilities		
Demand notes payable	$ 5,900,000	$ 2,400,000
Accounts payable	2,060,319	1,600,065
Accrued expenses	2,723,705	1,318,955
Total current liabilities	$10,684,024	$ 5,319,020
Operating lease advances from finance subsidiary	$ 1,036,001	$ 1,369,660
Deferred federal and state income taxes	$ 3,222,500	$ 976,400
Commitments and contingencies		
Stockholders' investment		
Common stock, $0.10 par value-Authorized, 6,000,000 shares outstanding, 1,892,664 shares in 1979 and 1,803,697 shares in 1978	$ 189,266	$ 180,370
Capital in excess of par value	5,097,160	4,626,645
Retained earnings	4,967,408	1,461,947
Total stockholders' investment	$10,253,834	$ 6,268,962
	$25,196,359	$13,934,042

IV MANAGEMENT AND REPUTATION

IV MANAGEMENT AND REPUTATION

- As indicated earlier, the CCI management is an extremely stable group. Herman Affel, the president of the company, was an original board member and has been president since the early 1970s. The other senior CCI executives have been added over the years and it is INPUT's understanding that there has been no significant turnover in the CCI senior executive group since the departure of the original president in 1970-1971.

- The CCI management group is extremely conservative and it is INPUT's opinion that they are conservative to a fault. The management has been successful in providing products which are outstanding in their field and yet they have not taken serious steps to expand their product line, which has become thoroughly entrenched in other market areas. There have been recent steps in this direction but no tangible evidence indicating results of these steps currently exists.

- In INPUT's opinion, this is a serious fault on the part of CCI's management in that the Bell System could easily produce the products that CCI is now supplying to the operating subsidiaries. If this is done, CCI would be in very serious trouble. Therefore, INPUT believes that management's conservatism has been a strength that has enabled the company to weather some earlier, difficult years, but at the same time it has been a weakness that puts the company in a position where it is subject to significant risks due to sudden shifts in its very narrow marketplace.

- The company's reputation is exceptionally good; its Bell system customers speak very highly of the company, its integrity and its product line. There are few organizations in the computer industry that enjoy as solid a marketplace reputation as does CCI.

- CCI management, both top and middle, is looked upon as being engineering-oriented and they do not enjoy the reputation of a management group with a flair for marketing. There is a Vice President of Marketing, but he tends to act in a very circumscribed role and does not have the marketing organization that other $25-35 million companies in the same field have.

V ACQUISITION-RELATED DATA

V ACQUISITION-RELATED DATA

A. COMPATIBILITY WITH PITNEY-BOWES' GOALS

- It is INPUT's opinion that Computer Consoles is uniquely suited to assist Pitney-Bowes in achieving the goals of its acquisition program. CCI has a very strong product line which is well engineered and well accepted in the marketplace. The company's degree of technical expertise in the fields of data base-oriented products and data communications-oriented products is probably unexcelled.

- Conversely, Pitney-Bowes could bring an extremely strong set of resources to the acquisition program in that Pitney-Bowes recognizes and has a strong entree into the the office-of-the-future market. It is INPUT's opinion that, while the CCI management has thought in this direction, they currently have no internal capability of moving towards the office of the future market even though much of their product line is oriented in this direction.

- As INPUT has stated before, the CCI management is strong and capable but very unimaginative. The combination of the CCI technical and engineering strengths together with the goals, directions and imagination of Pitney-Bowes would be a very strong one to assist Pitney-Bowes in the achievement of its goals.

B. ACQUISITION APPROACH

- As stated before, CCI is a public company, but the majority of its stock (68%) is closely held by Meiser Management, a venture capital firm. There is no question that Mr. Affel is the person who controls the company from a management as well as a strategic point of view. As stated in other reports, it would be INPUT's opinion that the best approach would for the Pitney-Bowes chairman to ask Mr. Affel directly to sit down and discuss "topics of mutual interest."

- INPUT believes that Mr. Affel as well as the remainder of the CCI senior management would be very receptive to acquisition discussions and would be intent and sympathetic to a direct approach by Pitney-Bowes.

- The outside Pitney-Bowes' board members are not, in INPUT's opinion, particularly strong members, and while they do provide valuable guidance to the company, they would not be overly influential in obstructing any possibilities in continuing acquisition discussions.

ACQUISITION CANDIDATE SELECTION STUDY

COMSHARE, INC.

I COMSHARE - COMPANY CHARACTERISTICS

I COMSHARE - COMPANY CHARACTERISTICS

A. SUMMARY DATA

COMSHARE, INC. 3001 South State Street Ann Arbor, MI 48106 (313) 994-4800	Richard L. Crandall, President and Chief Executive Officer
Public Corporation	
Subsidiaries:	Comshare, Ltd. - United Kingdom Comshare, AG - Switzerland Comshare SA - Belgium Comshare, BV - Netherlands Comshare, Ltd. - Canada Comshare, GmbH - Germany
Fiscal Year Ends:	June 30
Total Employees:	1,100
Stock Listing:	OTC
Company Founded:	1965
Products/Services:	Timesharing Services Human Resources Management Telephone Company Administration Tax Accounting Financial Planning Trust Accounting
Major Locations:	Ann Arbor, MI Philadelphia, PA London, England Brussels, Belgium The Hague, Netherlands Cologne, Germany Toronto, Canada Tokyo, Japan (affiliated)

COMSHARE, INC.
FIVE-YEAR FINANCIAL SUMMARY
($ Thousand)

	1980 (9 mos.)	1979 (9 mos.)	1979	1978	1977
Total Revenues	$57,099	$36,324	$52,980	$25,639	$18,213
Net Income	$ 3,520	$ 4,116	$ 4,374	$ 2,582	$ 1,475

B. HISTORY

- Comshare was founded in 1966 in Ann Arbor (MI). Since its origin, the company has provided a variety of computer services using timesharing technology to two primary market segments: CPA firms and operating companies of the Bell system. These two market segments continue to make up the bulk of Comshare's revenues. The Comshare management group has been remarkably stable compared to the norm for the computer services industry. Richard Crandall, one of the founders of Comshare and its original President, continues to serve as President and Chief Executive Officer.

- The initial investment which started the firm came from the Weyerhauser family, of the Weyerhauser lumber company. Funds from various trusts owned by the Weyerhauser family still comprise the single largest shareholder block of Comshare stock. At the present time, the Weyerhauser family and its trusts own approximately one-third of the shares outstanding.

- During its early years, Comshare selected Xerox Data Systems (XDS) hardware for use within its timesharing network. Since the initial selection of this hardware by Comshare, Xerox has gone out of the computer business and is no longer manufacturing XDS computers, causing significant concern over Comshare's heavy dependence on computers from a discontinued manufacturer. Honeywell has signed an agreement with Comshare to take over certain of the former XDS functions and, to date, the arrangement seems to be operating successfully, still partially using XDS hardware within Comshare's timesharing network.

- Comshare made a series of entries into the overseas marketplace very early in its history. It has had market penetration positions in Europe and in Japan almost literally since its founding. In addition, Comshare has taken a somewhat unique approach for a U.S. timesharing company towards overseas markets. Comshare has chosen to establish its own standalone timesharing network in each overseas market area serviced. In contrast, the more common approach taken by other U.S. timesharing companies is to service overseas markets by the use of satellite communications between the customers in the various market areas and the timesharing data center located in the U.S.

- Comshare does not break out European figures versus total corporate financials; however, it is reasonable to assume that its overseas operations are successful and have been growing over the years. It is also probable that Comshare's policy of establishing standalone timesharing networks in overseas marketplaces gives it a competitive edge when marketing its services. The economics of setting up a series of independent timesharing networks can be questioned, but clearly Comshare's overall financial results are exceedingly good.

C. LOCATIONS

Comshare, Inc.

- Ann Arbor, MI (Head Office)
- Arlington, VA
- Atlanta, GA
- Bala-Cynwyd, PA
- Bellaire, TX
- Charlotte, NC
- Chicago, IL
- Cincinnati, OH

- Clayton, MO
- Cleveland, OH
- Dallas, TX
- Des Plaines, IL
- Earth City, MO
- Hauppauge, NY
- Houston, TX
- Los Angeles, CA
- New York, NY
- North Hollywood, CA
- Philadelphia, PA
- Phoenix, AZ
- Pittsburgh, PA
- San Francisco, CA
- Southfield, MI
- St. Louis Park, MN
- St. Petersburg, FL
- Tualatin, OR
- Wellesley, MA
- Woburn, MA

Comshare Ltd., United Kingdom

- London, England (Head Office)
- Aberdeen, Scotland
- Belfast, Northern Ireland
- Bristol, England
- Cardiff, Wales
- Ediburgh, Scotland
- Glasgow, Scotland
- Henley-on-Thames, Oxon, England
- London, England
- Leicester, England

- Solihull, West Midlands, England
- Wakefield, Yorkshire, England
- Warrington, Cheshire, England
- Washington, Tyne & Wear, England
- Winchester, Hampshire, England

Comshare SA/NV

- Brussels, Belgium

Comshare BV

- The Hague, The Netherlands (Head Office)
- Amsterdam, The Netherlands

Comshare GmbH

- Cologne, Germany

Comshare Ltd., Canada

- Rexdale, Ontario (Head Office)
- Calgary, Alberta
- Kitchener, Ontario
- Hamilton, Ontario
- Mississanga, Ontario
- London, Ontario
- Montreal, Quebec
- Ottawa, Ontario
- Quebec City, Quebec
- Sarnia, Ontario
- Toronto, Ontario
- Rexdale, Ontario
- Vancouver, British Columbia

Japan Information Service Ltd.

- Tokyo (2)

D. ORGANIZATION

- The key company officers are: President and chief executive officer, Rick Crandall; Senior Vice President, Richard Eidsiick; Financial Vice President, Wallis Rathall; and three Group Vice Presidents, Donald Devine, Kevin Kalkhoven and Ian McNaugh-Davis. Each of the Group Vice Presidents has a series of Operating Vice Presidents reporting to him.

- In addition, Comshare has a Vice President of Operations responsible for network operations throughout the organization, both domestic and overseas, and a Vice President of Corporate Development.

- Each of the overseas operations has a Managing Director responsible for each respective operation as a profit center.

- Comshare originally made an investment in an operating entity in Japan, but has since closed down this operation and written off its losses, which were minor. Instead, Comshare now has a joint venture with a Japanese company, Japan Information Services Ltd., which gives it access to the Japanese marketplace.

- In many ways, Comshare is organized in what has become a classical timesharing company organization. In that the technology applicable to the company is highly centralized, the product development is centralized geographically but responsibility is distributed among a series of product managers. These product managers have significant responsibility for ensuring that their product is technologically sound as well as marketable, from both a features and pricing point of view. The branch offices are really sales offices

and are managed on a revenue-generating basis rather than a profit center basis.

- As stated above, the overseas locations are somewhat unique in that they are relatively autonomous, with their own hardware and network resources. The various overseas subsidiary companies are operated on a profit center basis.

II PRODUCTS, SERVICES AND MARKETS

II PRODUCTS, SERVICES AND MARKETS

- Comshare publicly states that it attempts to service relatively few market segments and, by concentrating its efforts, it hopes to provide a service which is superior to its competition in these selected market areas. A brief review of the primary products and services provided by Comshare follows.

A. COMPASS - CERTIFIED PUBLIC ACCOUNTING SERVICES

- COMPASS includes a variety of services oriented towards independent CPA firms. These services include auditing, tax-planning, personal income tax processing, statistical sampling and a series of other program areas.

  - Significantly, the American Institute of CPAs selected Comshare to provide network services to institute members so that these members can, through the use of a terminal in their offices, access the programs which are developed and maintained by the AICPA. This gives Comshare a decided edge in marketing its services within the CPA community.

- The COMPASS library includes over 60 different programs which cover virtually all of the various types of activities that an auditing firm could perform. In addition to client-oriented applications, COMPASS also includes a time-and-billing system so that a CPA firm can record and monitor staff activity and generate client bills.

- A considerable amount of the COMPASS product resources must be oriented towards monitoring any changes, extending from either industry or government policies and regulations, that would affect Comshare's COMPASS offering. Comshare expends a continuous and significant effort to ensure that COMPASS offerings are maintained in a current manner within a highly regulated customer environment.

B. 4.1.1.

- 4.1.1., a system developed by Tymshare in the late 1960s, is oriented towards both Bell and independent telephone operating companies. Its basic function is to enable the telephone operating company to maintain an inventory and to assign telephone numbers. While this represents a narrow marketplace, the processing volume for this single application is extremely high. The telephone companies are installing over 10 million new telephone numbers per year and must keep track of these numbers as well as the various types of services assigned to each of the numbers.

- Most significantly, the Comshare network is tied into the Bell System's electronic switching systems (ESS). This enables Comshare to feed data directly into those Bell operating companies that are equipped with electronic switching systems. Through the use of this computer-to-computer linkage, Comshare ensures that it is without competition, at least in this single application. Despite its relatively narrow set of services directed towards a number of large organizations (such as the telephone operating companies), Comshare states in its 1979 annual report that no single customer contributes more than 3% of its total revenues.

C. PROFILES

- PROFILES is a system oriented towards corporate personnel managers. Its basic function is to provide control and reporting of information associated with the various aspects of the personnel function within a major corporation. This system was developed in the early 1970s and is primarily oriented towards providing a personnel manager with the data to ensure compliance with, or information for litigation related to, various government regulations surrounding the personnel aspect of major companies.

- The PROFILES system is also oriented towards providing data for internal corporate use concerning the administration of various employee benefit plans, such as profit sharing and employee benefit statement preparation.

D. EMPLOYEE BENEFIT ADMINISTRATION

- In fiscal year 1977, Comshare acquired Trilog Associates of Philadelphia. In actuality, Comshare acquired that portion of the company which provided employee benefit and pension plan administration. This product offering has remained a separate operating division of Comshare in that the original Trilog data center is still in existence in Philadelphia, providing services to clients on a batch basis. The "Trilog" clients are basically major banks who have significant responsibilities for administering pension plans and other types of employee benefit plans.

- In addition to the major services identified above, Comshare offers the following types of services:

  - DigiTrust, a personal trust accounting system based on a minicomputer and marketed to medium-sized banks which want their own standalone trust accounting system.

- Wage-Price System, introduced in January of 1979 to furnish Comshare clients with a system that would enable them to monitor and control their compliance with the federal government's wage and price guideline system.

- Questor, a proprietary data base management language which was introduced in fiscal year 1978. This language enables the Comshare clients to manipulate the data residing in the Comshare data bases more easily. Even though this product is relatively new, it now contributes more than 10% of Comshare's overall revenues.

III FINANCIAL SUMMARY

III FINANCIAL SUMMARY

- A five-year financial summary is included below, together with a balance sheet for year-end fiscal 1979.

- The year-to-year growth of Comshare is strong and consistent in recent years. It is also significant that Comshare has been consistently profitable since 1973.

- Comshare's pre-tax profit margins are good, but not outstanding, and have fluctuated somewhat. It is INPUT's opinion, now that $50 million in revenues have been achieved, that Comshare's management should be able to hold pre-tax profit margins consistently above 15%.

A. FIVE-YEAR FINANCIAL SUMMARY

In thousands of dollars except per share data

Year ended June 30	1979	1978	1977	1976	1975
Operations					
Revenue	$52,980	$25,639	$18,213	$13,758	$12,312
Growth	106.6%	40.8%	32.4%	11.7%	29.5%
Earnings[1]	$ 4,374	$ 2,582	$ 1,475	$ 720	$ 755
Per share[4]	1.31	0.97	0.64	0.35	0.37
Pretax profit margin[2]	14.0%	12.6%	12.1%	7.2%	11.9%
Return on average equity	26.7%	25.3%	21.6%	14.9%	22.6%
Research and development	$ 3,339	$ 1,882	$ 1,011	$ 1,772	$ 1,541
As Percent of revenue	6.3%	7.3%	5.6%	12.9%	12.5%
Financial position					
Cash flow from operations	$10,011	$ 4,450	$ 3,183	$ 2,419	$ 2,454
Working capital	3,637	1,325	733	537	(445)
Capital expenditures	11,277	3,081	2,745	1,635	1,064
Total assets	46,850	21,445	17,091	11,882	11,429
Long-term debt	9,553	3,825	4,137	3,813	3,592
As percent of total equity	42%	30%	46%	68%	82%
Shareholders' equity	$22,515	$12,755	$ 8,986	$ 5,579	$ 4,388
Book value per share[4]	6.11	4.79	3.49	2.73	2.15
Other data					
Number of employees at year-end	1,100	538	453	321	278
Revenue per average number of employees	$ 60	$ 52	$ 47	$ 46	$ 45
Shares outstanding[3,4]	3,334,000	2,675,000	2,322,000	2,066,000	2,041,000

[1] After taxes and before extraordinary credits.
[2] Before equity earnings.
[3] Shares outstanding are represented by the weighted average number of common and common equivalent shares outstanding except for 1977, which was based on the weighted average number of common shares.
[4] Adjusted to reflect three-for-two stock split.

B. ASSETS

As of June 30	1979	1978
Assets		
Current assets		
Cash	$ 954,600	$ 430,200
Temporary investments, at cost	1,169,500	900,000
Accounts receivable		
Trade, less allowance of $359,900 in 1979 ($199,600 in 1978)	11,235,400	4,262,100
Affiliated companies	112,400	160,000
Prepaid expenses	1,113,300	326,500
Total current assets	14,585,200	6,078,800
Property and equipment, at cost		
Land	23,400	131,400
Computers and other equipment	28,770,800	14,184,200
Building and leasehold improvements	3,364,500	1,671,100
Property and equipment under construction	1,814,400	206,200
	34,181,100	17,192,900
Less - Accumulated depreciation	10,190,800	6,930,800
Property and equipment, net	23,990,300	10,262,100
Other assets		
Goodwill, net of accumulated amortization of $121,800 in 1979 ($40,500 in 1978)	6,429,200	1,228,500
Purchased software, net of accumulated amortization of $272,000 in 1979 ($116,100 in 1978)	887,400	499,200
Investment in affiliates	465,100	2,126,300
Deferred income tax benefits	--	554,300
Deposits and other	492,900	695,600
Total other assets	8,274,600	5,103,900
	$46,850,100	$21,444,800

C. LIABILITIES

	1979	1978
Liabilities and shareholders' equity		
Current liabilities		
Current portion of long-term debt	$ 1,835,800	$1,806,000
Notes payable	20,000	302,000
Accounts payable	4,864,500	1,279,200
Accrued liabilities	3,179,300	1,026,800
Accrued income taxes	1,048,400	339,700
Total current liabilities	10,948,000	4,753,700
Long-term debt	9,552,700	3,824,500
Deferred liabilities and credits		
Deferred income taxes	3,721,000	--
Deferred credits	113,700	112,000
Total deferred liabilities and credits	3,834,700	112,000
Shareholders' equity		
Common stock, $1 par value; authorized 10,000,000 shares; outstanding 3,684,267 shares in 1979 (2,663,491 shares in 1978)	3,684,300	2,663,500
Capital contributed in excess of par	13,890,000	9,883,100
Retained earnings	5,246,400	514,000
	22,820,700	13,060,600
Less - Notes receivable from officers	306,000	306,000
Total shareholders' equity	22,514,700	12,754,600
	$46,850,100	$21,444,800

INPU

IV MANAGEMENT AND REPUTATION

IV MANAGEMENT AND REPUTATION

- Comshare's management has a reputation within the industry for being capable, conservative and stable. Rick Crandall, President and CEO, has been the president of ADAPSO, the highly regarded industry trade association. More significantly, as mentioned before, the Comshare management has been stable and this is extremely rare within the computer service industry.

- As far as INPUT can determine, there is nothing significantly negative concerning Comeshare's management team. They are considered capable individuals and have consistently done their job in a thorough manner. Crandall is willing to delegate responsibility to other managers, and is willing to allow them to fulfill this responsibility using their own management style. All of the senior management of Comshare are located in Ann Arbor except for those managers in overseas locations.

V ACQUISITION-RELATED DATA

V ACQUISITION-RELATED DATA

A. COMPATIBILITY WITH PITNEY-BOWES' GOALS

- It is INPUT's opinion that Comshare represents a well-run computer industry firm. Its revenues and profits are sound and its product lines are well suited to the marketplaces it serves. However, beyond this, it is INPUT's opinion that Comshare does not represent a particularly good acquisition for Pitney-Bowes. Its senior management has sufficient depth such that individuals from within this management group could consult with Pitney Bowes in its plans for penetrating the high technology marketplaces. However, the members of the Comshare management group have a rather narrow perspective concerning the overall information systems industry and INPUT questions whether these persons, individually or collectively, would be of as much assistance to Pitney-Bowes as individuals from other organizations which have been investigated by INPUT.

B. ACQUISITION APPROACH

- Assuming Pitney Bowes does follow through with acquisition discussions concerning Comshare, it is INPUT's opinion that these discussions be initiated directly with Richard Crandall, the president of Comshare. It is INPUT's opinion that such a direct approach is more appropriate in this case than an approach through a third-party organization.

- Due to the heavy financial involvement by the Weyerhauser family, representatives of the various Weyerhauser trusts will have to be part of the conversation at some point. The involvement of these trusts in Comshare ownership should be a plus factor from the point of view of Pitney-Bowes because it is probable that the trust funds are looking to receive a return on their investment and are not interested in maintaining an equity position in Comshare for an indefinite period of time.

- From the point of view of the insiders, including Crandall, it will be necessary for Pitney Bowes to provide some incentive for these key management personnel to stay with the firm. This incentive will probably have to be monetary as well as professional. That is, an incentive compensation program should be constructed so that these individuals are encouraged to stay with the company after the acquisition. In addition, Pitney Bowes will probably have to demonstrate to this management group that the professional challenges will be at least as great, once Comshare is part of Pitney Bowes, as the challenges would be if Comshare remained an independent firm.

ACQUISITION CANDIDATE SELECTION STUDY

DISPLAY DATA CORPORATION

I DISPLAY DATA - COMPANY CHARACTERISTICS

I DISPLAY DATA CORPORATION - COMPANY CHARACTERISTICS

DISPLAY DATA CORPORATION
11350 McCormick Road
Hunt Valley, MD 21031
(301) 667-9211

Robert Leatherwood, Chairman
Paul Naumann, President
Privately Held Corporation
Revenues, FY 1979:
$26 million

A. SUMMARY DATA

- Display Data Corporation has, since its founding in 1973, provided accounting and ancillary services to automobile dealers. Unlike its competition, such as Automated Data Processing, CARS, and Reynolds & Reynolds, Display Data's first service offering was through standalone minicomputer systems installed in automobile dealerships. Since then, its major competitors have also provided minicomputer services to automobile dealers.

- In the last few years, Display Data's management has attempted to provide services to various types of business organizations aside from automobile dealerships. It is apparent during the current economic situation that Display Data Corporation has been adversely affected by the recessionary effects on the automobile dealership marketplace. While it has attempted to diversify into other areas, this diversification was not started early enough and has not been significant enough to avoid these adverse effects.

- It is INPUT's opinion that the management of Display Data Corporation has, in the past, been able to remain ahead of competition from a technological point

of view. INPUT believes that this technologically advanced attitude will assist Display Data in overcoming those economic factors presently impacting the organization.

B. HISTORY

- Display Data Corporation began operations in October 1973. Its purpose was to deliver a standalone computer system which could be installed in automobile dealerships to provide the dealership management with accounting and parts inventory control. In the early 1970s, the two or three companies providing this type of service were offering it primarily on a batch basis. The standalone minicomputer approach offered by Display Data Corporation was radically different from those offered to automobile dealers either by independent computer services firms or through services offered by a parent manufacturing company.

- By the middle of 1977, Display Data Corporation had installed approximately 175 standalone turnkey minisystems. The majority of these systems were installed in automobile dealerships; the remainder of the systems were installed in miscellaneous businesses which used the same basic accounting functions as automobile dealerships.

- It has only been during the past two years that the management of Display Data Corporation has seriously considered expanding into other market areas. Additional software has been developed to enable Display Data Corporation to provide services to distributorship-type firms other than automobile dealers. It is INPUT's opinion that the Display Data Corporation management has recognized the intense competition within the automobile dealership field, and also recognizes that this market segment is not expanding; in fact, according to many market projections, it is contracting.

C. LOCATIONS

- The management of Display Data Corporation has chosen not to supply INPUT with any details concerning its current operations. However, it is known that Display Data Corporation now has about 15-20 branch offices throughout the country with concentration in the East and Far West. Display Data is not particularly strong in the Midwest. This is, perhaps, a reaction to the extremely strong concentration of Reynolds & Reynolds' and C̄ARS' branch offices throughout the midwestern U.S.

- All of the executive and research and development activities are located in Hunt Valley (MD), a suburb of Baltimore.

D. ORGANIZATION

- Robert Leatherwood is Chairman of Display Data. He founded the company in 1973 and has remained totally responsible for the company's operations ever since. Mr. Naumann, the President, joined the company approximately two or three years after its founding and has maintained his position as President since that time.

- In addition, there is a Vice President of Operations, a Vice President of Marketing, and a Vice President of Systems. All of these individuals are located at the Hunt Valley facility.

- Display Data Corporation has approximately 750 employees. Of these, approximately 125-150 are field marketing personnel.

II PRODUCTS, SERVICES AND MARKETS

II PRODUCTS, SERVICES AND MARKETS

A. PRODUCTS AND SERVICES

- Display Data provides "turnkey" minicomputer systems manufactured by Microdata to businesses in selected industries. The company acts as a "single-source" turnkey supplier to its customers. As a single source, the company assembles the required system hardware and provides the necessary software programs, installation, training and maintenance. Systems are sold on a "turnkey" basis, in that the systems, when installed by the company, are fully operational, complete with application programs developed for the customer's industry.

- The company has marketed its systems almost exclusively to automobile dealers, which have accounted for over 95% of its revenues. Display Data has recently begun to market systems to the beverage distribution industry, and has also begun to offer systems to businesses in the wholesale distribution and automobile replacement parts industries. The company's systems are marketed under the trademark in*sight® and are offered for sale only. Prices range from $30,000 to $150,000.

1. IN*SIGHT® SYSTEMS

- Display Data's in*sight® systems are custom programmed minicomputer systems designed to be used on the customer's premises. The hardware

components of the in*sight® system consist of a minicomputer which processes data, disk storage units which store information, video display terminals used to enter and review information and printers used to produce reports. As stated before, all in*sight® hardware is produced by Microdata.

- The application programs offered by the company to an automobile dealer include:

  - General Ledger.
  - Accounts Receivable.
  - Accounts Payable.
  - Payroll.
  - Parts Inventory Control.
  - Parts Counter Billing.
  - Leasing.
  - Sales Follow-up and Merchandising.
  - Service Follow-up and Merchandising.
  - Vehicle Inventory.
  - Finance and Insurance Form Preparation.

- The typical automobile dealer would use five or six application software packages in its system.

- The company has designed and created a standard set of application programs for each industry to which it markets. All of these application programs are "parameterized," that is, they contain options which allow them to be customized in certain respects by non-programming personnel, such as the Company's field representatives or the customer's employees, to suit the desires of an individual customer.

- The company's in*sight® system has recently become approved for use with the Chevrolet Data Communications System, which was developed by Chevrolet to enable dealers to submit data directly to the factory, including new car orders, warranty claims and accounting information. This data had been previously submitted by mail or other indirect means. The company's in*sight® system offers the dealer the capability of communicating with the factory directly from an integrated in-house minicomputer system rather than from a separate single-purpose terminal.

- Display Data's in*sight® systems are sold for $30,000 to $150,000, depending on the number of applications and peripheral components purchased. Included in this price is an initial software license fee. New customers also pay a monthly software license fee, instituted in July, 1978, which will average $240 per month per system. The licensing agreement provides that the fee will be paid as long as the customer used the company's software. The company offers maintenance service to its customers, with an average monthly maintenance fee of approximately $400 per system. At the time the company instituted the monthly software license fee, it also reduced what had been an on-time software license fee.

- It is anticipated that revenues realized from the monthly software license fee will equal the reduction of the on-time software license fee within 24 to 40 months, depending upon the application programs licensed.

- The company introduced its new $30,000 entry-level system in July 1978. Prior to that time, the Company's lowest-priced system had been $42,000. The entry-level system was designed to be marketed to businesses which had

previously been too small to be customers. The company believes that the sales of the entry-level systems will not significantly impact the sales of its higher-priced systems. All entry-level systems can be upgraded to larger in*sight® systems.

B. MARKETS

- Markets of primary interest to the company include industries that are characterized by a large number of small- or medium-sized businesses with significant accounting or information processing needs. In recent years, the cost of computer hardware has declined so that equipment costs associated with an in-house computer system are economically feasible for many of these businesses. These businesses, therefore, form a potential market for Display Data's in*sight® systems.

- There are approximately 30,000 domestic and foreign car dealerships in the U.S. Of these, approximately 12,000-15,000 are of sufficient size economically to utilize an in-house computer and are, therefore, potential customers for its systems. Most of these dealers currently use automated accounting and management information systems of some type, including timesharing or batch processing service bureaus and accounting machines; less than 10% have in-house minicomputer systems.

- The company has installed a small number of its in*sight® systems in businesses in the beverage distribution industry and has monitored the performance and capabilities of these systems. In September 1978, Display Data began marketing its beverage distributor system to distributors of beer and soft drinks. There are approximately 8,000 such distributors in the U.S. and a significant number of these distributors are potential customers for minicomputer systems. Display Data has also installed and is monitoring its systems in businesses in the wholesale distribution and automobile replacement parts industries. However, because the company has only recently begun to

market its beverage distribution system, and has not yet begun to market systems for the wholesale distribution and automobile replacement parts industries, its success in these markets is still not determined.

C. MARKETING AND SALES

- Display Data markets its in*sight® systems through its own direct sales force operating out of 24 branch offices located throughout the U.S. The company currently expects to open additional branch offices in the U.S. in the future. Display Data is also seeking regulatory approval to open one or more offices in Canada.

- The company's systems are sold by direct sales calls on prospects and demonstrations of the system in the company's offices. Sales prospects are generated by direct mail advertising, trade show demonstrations and customer referrals and testimonials. The in*sight® system is offered for sale only, but the company does assist customers in locating sources of third-party lease financing.

- It is currently reported that Display Data has not, within the last two years maintained its systems in a manner that would keep them competitive with other service companies offering similar services. It is the opinion of competitive firms that Display Data's strength is in its marketing and in its standardized approach to the industry. However, these same individuals indicate that Display Data would be in a much more advantageous position if it had spent more management effort and resources on improving and enhancing its products line.

- For example, Display Data does not provide parts billing for financial applications, which are extremely important in the dealer services marketplace.

- All Display Data's systems are offered through the use of Microdata computers. Display Data manufacturers its own CPU under license from Microdata and it is reported that the Display Data CPUs are a carbon copy of the Microdata CPUs. In addition, Display Data offers its own maintenance capabilities to its clients.

- Display Data has maintained a marketing philosophy which INPUT believes is sound: it offers its products to clients in major market areas or within a 50-mile radius of these market areas. It does not attempt to offer its services in the minor marketplaces or rural areas, and is willing to concede these marketplaces to other firms. INPUT concurs with this marketing approach as INPUT believes that the distribution of automobile dealerships outside of the major market areas represents a situation where a firm is not able to make sufficient profit margins if it attempts to service customers in the ancillary areas.

III FINANCIAL SUMMARY

III FINANCIAL SUMMARY

- Display Data Corporation is extreme in its approach towards maintaining secrecy concerning its financial situation. It is reported through "reliable sources" that in 1979 Display Data had revenues of approximately $26 million and pretax profits of approximately $4 million.

- Further, it is reported that Display Data is currently losing clients at a fairly significant rate. These clients are reportedly being lost to competition due to the very adverse economic factors affecting automobile dealers.

- Part of the reason that Display Data is losing clients to competition is that they have not placed sufficient emphasis on systems development and are attempting to compete with systems that are partially obsolete. Also, Display Data has placed a certain amount of its R&D funds in developing systems to service clients in other market segments. It is undoubtedly the correct approach for Display Data, but it has not yet been able to reap the benefits that will accrue to it in the long run based on this diversification.

- Exhibit III-1 contains detailed financial information extracted from a 1978 prospectus.

EXHIBIT III-1

FIVE-YEAR PROFIT AND LOSS SUMMARY FOR DISPLAY DATA CORPORATION

	Years ended August 31,				
	1974	1975	1976	1977	1978
	(Unaudited)				
Revenues:					
Sales of computer systems (Note A)	$ 378,611	$1,108,063	$4,048,600	$6,336,292	$16,349,417
Equipment maintenance and supplies	12,665	66,337	356,101	887,631	1,914,540
Total revenues	391,276	1,174,400	4,404,701	7,223,923	18,263,957
Costs and Expenses:					
Costs of products sold and operating expenses (Notes B and 1)	229,092	585,334	2,331,178	3,815,058	8,083,109
Selling, general and administrative expenses (Notes D, H and I)	75,909	494,776	1,496,184	2,139,987	6,267,674
Research and product development expenses (Note E)	102,135	164,285	489,200	734,787	903,840
Interest expense	3,799	14,797	28,334	25,893	7,047
Total costs and expenses	410,935	1,259,192	4,344,896	6,715,725	15,261,670
Income (loss) before income taxes and extraordinary credit	(19,659)	(84,792)	.59,805	508,198	3,002,287
Provision for income taxes (Notes C and 1)	1,978	2,200	6,400	211,000	1,401,000
Income (loss) before extraordinary credit	(21,637)	(86,992)	53,405	297,198	1,601,287
Extraordinary credit (Note C)	—	—	—	81,800	—
Net income (loss)	$ (21,637)	$ (86,992)	$ 53,405	$ 378,998	$ 1,601,287
Primary earnings (loss) per common share (Notes F and 7):					
Income before extraordinary credit	$ (.01)	$ (.04)	$ .03	$ .12	$ .59
Extraordinary credit	—	—	—	.03	—
Total	$ (.01)	$ (.04)	$ .03	$ .15	$ .59

IV MANAGEMENT AND REPUTATION

IV MANAGEMENT AND REPUTATION

- The Display Data Corporation management has a reputation for being innovative and creative. As mentioned earlier, the Display Data Management was the first to offer standalone minicomputers to the automobile dealership marketplace. It introduced this technology successfully and was able to support a large number of systems before other competitive organizations were able to enter the marketplace offering turnkey systems of the same nature. The management of Display Data Corporation reports that it currently has 1,100 systems installed. It is INPUT's opinion that this is an exaggeration in that Reynolds & Reynolds, considered the leader in the field, has only approximately 1,300 systems installed. One of the problems in accepting information from the management of Display Data Corporation is that it has historically tended to overemphasize its successes and, being a privately held organization, there is no satisfactory way to verify or refute these estimates.

- However, Display Data's management has to successfully penetrate a very competitive marketplace, the automobile dealerships. In addition, the management of Display Data Corporation has been innovative and has attempted to penetrate other marketplaces with varying degrees of success.

- Display Data management has by now had approximately seven years of successful installations of turnkey minisystems. This marks it as a very unusual organization within the ranks of computer services companies in general throughout the U.S.

V ACQUISITION-RELATED DATA

V ACQUISITION-RELATED DATA

A. COMPATIBILITY WITH PITNEY-BOWES' GOALS

- As mentioned before, Display Data's management is technologically innovative and has managed a company that has grown to over $35 million in annualized revenues. The company has done this through the introduction of turnkey minisystems in a marketplace which is highly competitive; therefore, it is INPUT's opinion that the Display Data Corporation management is innovative, aggressive and able to manage a rapidly growing organization. INPUT believes that a management group such as this would be most helpful to Pitney-Bowes in expanding its entree into the electronically based product marketplace.

- While INPUT believes that the automobile dealership marketplace is not attractive for any type of computer service organization, Display Data Corporation has successfully started a diversification program into other market segments. These other market segments are much more attractive than the automobile dealership marketplace and INPUT believes that, even on its own, it will be successful in this diversification program. With the assistance of Pitney-Bowes' management, it is conceivable that Display Data Corporation could be even more successful in their diversification approach, using standalone minicomputer technology.

B. ACQUISITION APPROACH

- Because Display Data Corporation is a privately held corporation, it would be imperative for Pitney-Bowes' management to approach Mr. Leatherwood, the chairman of Display Data Corporation, directly. INPUT feels this initial contact should be made on the part of the chairman of Pitney-Bowes in order to conduct Chairman-to-Chairman discussions.

- Both Mr. Leatherwood and the senior management of Display Data Corporation would undoubtedly be interested in the ability to capitalize on their investment in the corporation and a cash or stock approach to acquisition by Pitney-Bowes should prove attractive.

- There must also be an incentive program established as part of the acquisition formula in order to retain the senior management of Display Data Corporation so that a successful transition can be achieved as a subsidiary company of the Pitney-Bowes Corporation.

ACQUISITION CANDIDATE SELECTION STUDY

PLANTRONICS, INC.

I PLANTRONICS, INC. - COMPANY CHARACTERISTICS

I PLANTRONICS, INC. - COMPANY CHARACTERISTICS

A. SUMMARY DATA

PLANTRONICS, INC. 10443 Bandley Drive Cupertino, CA 95014 (408) 996-0606	Jack W. McKittrick, Chairman William L. Martin, President & CEO
Public Corporation	
Subsidiaries:	Zehntel, Inc. Frederick Electronics Corp. Action Communications Systems, Inc. Kentrox Industries, Inc. Plantronics Canada, Ltd. Plantronics International Corporation Wilcom Products, Inc. Plantronics Research Corporation
Fiscal Year Ends:	June 2
Total Employees:	Approximately 1,900
Stock Listing:	NYSE
Company Founded:	1961
Products:	Voice Headsets, Data Terminals, Telephone and Message Switching Systems, Automatic Testing Equipment
Major Locations:	Cupertino, CA Santa Cruz, CA Portland, OR Dallas, TX Frederick, MD Montreal, Canada Walnut Creek, CA Sepulveda, CA

FIVE-YEAR FINANCIAL SUMMARY
($ Thousand)

	1980 (9 mos.)	1979 (9 mos.)	1979	1978	1977
Total revenues	$69,892	$62,733	$86,579	$69,311	$53,735
Net income	5,889	6,006	8,731	7,895	6,020

B. HISTORY

- Plantronics was founded in 1961 in Santa Cruz (CA). The founders were Jack McKittrick, who is currently Chairman and Chief Executive Officer, Courtney Graham, who has recently retired as chairman, and Keith Larkin, who is no longer associated with the company. These three individuals were all associated with the aviation industry and founded Plantronics to develop a light-weight headset for pilots and aircrew members. The initial headsets were sold to the owners and operators of aircraft as well as air traffic control personnel.

- Shortly thereafter, a new market was found when the Plantronics personnel found that the headsets could be used by telephone company operators. A close working relationship was developed with various components of the Bell system and very quickly the telephone operating companies became the primary market for the Plantronics headsets. Plantronics has sold over 2 million of these headsets to the Bell system and through the Bell system to its customers. These headsets are currently marketed under the trade name, "Star Sets."

- The headset product line remained the primary product line of Plantronics through the early 1970s. In 1974, Plantronics developed and began the manufacture and marketing of its second major product line, the VuSet. The VuSet is a CRT-oriented data terminal designed to display computer-stored data which is requested through the use of a touchtone telephone used as an input keyboard. The VuSet has been sold primarily to telephone operating

companies for use by information assistance operators. The VuSet is marketed to the Bell operating companies through Western Electric, which is now using the VuSet as an industry-wide standard for certain types of data retrieval terminals.

- In 1976, Plantronics introduced a third product line that was oriented towards telephone operating companies. This product, called CentraVox, is a centralized telephone answering system which enables telephone operating companies to provide its subscribers with an automatic telephone answering service from the telephone company's central office.

- Plantronics has been very acquisition-oriented, as shown below:

  - 1968 - Frederick Electronics acquired - principal product: computer-based telex switching systems that have been primarily sold to foreign communication companies.

  - 1973 - Kentrox Industries acquired - a manufacturer of telephone transmission equipment.

  - 1976 - Action Communications Systems acquired - a manufacturer of message-switching processors and of the WATSBOX, a computer-based telephone management system.

  - 1978 - Zehntel, Inc. acquired - A manufacturer of automatic printed circuit board testers.

  - 1978 - Willcom Products, Inc. - a manufacturer of telephone test equipment.

- In 1979, Plantronics formed Plantronics Research Corporation, an in-house R&D organization established to perform research and development on new product lines.

C. LOCATION

- Plantronics is located primarily in California where it was founded in 1961. The corporate headquarters are in Cupertino (CA) with other locations as follows:

  - Santa Cruz (CA) - produces the VuSet data terminal.

  - Portland (OR) - Plantronics Kentrox - manufactures miniaturized telephone transmission equipment.

  - Dallas (TX) - Plantronics Action Communication Systems, Inc. -manufactures and sells the telecontroller, the computer-based, store-and-forward switching system.

  - Walnut Creek (CA) - Plantronics Zentel - manufactures the Troubleshooter test system - a computerized testing and measurement system used in the telephone communications computer and automotive industries.

  - Montreal (St. Laurent), Quebec, Canada - Plantronics Canada Ltd. - basically a marketing and service location to provide products and service to Canadian customers.

  - Frederick (MD) - Plantronics International Corporation and Frederick Electronics Corporation - produces the Eltex system - a computer controlled electronic switching system.

    . These systems are sold primarily to customers in overseas locations.

    . In addition, the Frederick location also produces a variety of other voice transmission equipment. The international organi-

zation is primarily a marketing organization whose purpose is to sell and service the products of Plantronics Frederick to overseas customers.

- Laconia (NH) - Plantronics/Wilcom Products Inc. - manufactures a variety of electronic and communications testing equipment.

D. ORGANIZATION

- Plantronics has grown significantly during the past four or five years due to acquisitions as well as internal growth. Due to the various acquisitions and their diverse product lines, each of the operating companies is run by a President on a semi-autonomous basis. Each operating company has its own divisional staff and is self-sufficient from a financial, manufacturing and operational point of view.

- To date, the company has not emphasized a strong, formally organized marketing organization. Because of the top management's experience and focus on selling to the communications industries, first domestically and then overseas, the concept of a separate, formal marketing organization has not yet been totally accepted. As Plantronics starts to expand outside of the communications industry, it is probable that a formal marketing organization will have to be developed.

- The recent move towards establishing a Plantronics research corporation as a corporate research center in Sepulveda (CA) implies the centralization of an overall research capability within the corporate structure. The establishment of this research center reflects the need to move more aggressively towards computer-based systems. Management has stated that this research center will develop both hardware and software components for future product lines.

II PRODUCTS, SERVICES AND MARKETS

II PRODUCTS, SERVICES AND MARKETS

A. PRODUCTS AND SERVICES

- All of Plantronics' products and services were originally related to the field of telecommunications.

- The original lightweight headset is produced in over 115 variations for different customers' requirements. Specially designed headsets from Plantronics were used in all of the NASA manned space flight programs.

- The centralized telephone answering system (CentraVox) has been sold to telephone companies for use in central offices.

- The VuSet terminal, designed to operate in conjunction with touch-tone telephones, has been approved as a company-wide standard by the Bell System for sale by Bell to its customers. While an interesting concept, the VuSet has not lived up to Plantronics' marketing expectations. However, VuSet is now being marketed to banks, insurance companies, hospitals and industrial companies.

- The Telex switching systems from Frederick, marketed under the name Eltex, have been successfully sold to many foreign communication administrations. The latest version, Eltex V, developed in conjunction with Cable and Wireless, a British firm, has been ordered by a number of customers.

- The WATSBOX from Action Communication Systems has been supplemented by a larger telephone management system called Roadrunner/Apex, introduced in 1978. This system is built to operate in conjunction with telephone company equipment rather than to replace it. One recent enhancement of the system has been voice recognition equipment which would enable field salespeople, for example, to call into the system speaking their authorization code and the requested telephone number.

- Test equipment and telephone transmission devices round out Plantronics broad line of telecommunications-related products. The most sophisticated of these products is the Troubleshooter line which can test, diagnose and print out repair instructions for complex printed circuit board assemblies, including units with microprocessors on-board.

- On a more general basis, Plantronics management has now recognized that its future product lines will, to a great degree, be oriented around some form of computerized logic. They also apparently recognize that their products and services will have to be oriented towards a more broad-based marketplace than the Bell system and its equivalent organizations in foreign countries.

  - As stated earlier, the VuSet product was originally developed for telephone companies, but Plantronics has recently been somewhat successful in introducing VuSet terminals into non-communications-oriented organizations.

  - Furthermore, the WATSBOX telephone management system manufactured and sold by Plantronics is now being sold directly to the end user. That is, industrial companies are installing WATSBOXes to enable the economic optimization of the use of the various common carrier facilities available to the user company. Each user department or individual is tied into the WATSBOX and provides a selection and switching facility for that users' communications needs. The WATSBOX also provides billing analysis, reports, etc., for monitoring communications expenses.

- The Roadrunner system is a more advanced version of the original WATSBOX and has also been installed in a number of end user organizations. To the best of our knowledge, both the WATSBOX and Roadrunner systems are currently marketed to end users by common carriers, not directly by Plantronics.

- The early Star Set headsets have been marketed successfully to a great variety of business organizations. In addition to significant use within telephone companies themselves, these headsets have been sold for use by service personnel in airlines, schools, hotels, and various other service organizations located throughout the world.

- The Eltex product line is one of the most significant products that Plantronics has yet developed. The Eltex system is a computerized electronic switching system which is currently in use, primarily by common carrier organizations. However, this type of equipment can and will be used by industrial companies to control, monitor and expedite the flow of internal data and voice communications.

B. MARKETS

- As stated previously, Plantronics basically supplies its products to communications carriers, with a more recent emphasis on end user companies. Both in the U.S. and overseas, however, the company's main customers are private or government-owned communications organizations.

- The company markets its Star Set product line to the Bell system and subscribers of the Bell system, as well as to the FAA for use by air traffic controllers. It is worthwhile noting that the Bell system operating companies now permit direct connection of customer-owned headsets to telephone company-supplied jack equipment such as switchboards and call directors.

- Plantronics headsets are also marketed to the general telephone system subscribers through Automatic Electric Company, and to other independent telephone company subscribers through Graybar Electric Company.

- The Frederick Electronics Corporation's products are marketed to government-owned telecommunications companies, international common carriers, government agencies and systems suppliers through Frederick's own direct sales organization as well as sales representatives and distributors.

- The Action Communications Systems' products are also marketed to common carriers, telephone companies and end users by Action's own direct sales organization. In addition, Action has its own field service organization and also provides field maintenance through an independent field service company.

- Kentrox Industries also has its own direct sales organization which markets its products to telephone companies and other common carriers, both domestic and overseas.

- It is apparent that Plantronics has a significant toehold in marketing its products to the various Bell system operating companies. This competitive edge is due in part to three members of the Board of Directors who are retired Bell system executives. A review of Plantronics' history provides clear evidence of its overwhelming orientation towards the telephone companies. However, a review of the last two years' activities and an analysis of management's more recent decisions indicate that Plantronics is attempting to move into non-telephone company markets. It is INPUT's opinion that Plantronics is unfamiliar with these market areas. Management will have to provide additional marketing resources before it can be successful in penetrating these new market areas.

- As Plantronics postures itself for a possible move into the "office-of-the-future" marketplace, it will not only be dealing with a new type of customer but it will also be exposing itself to direct competition from companies with which it has not directly competed in the past. Organizations such as Exxon,

Xerox, IBM and others will view Plantronics as a direct competitor in the non-Bell areas and will, of course, attempt to take appropriate steps.

III FINANCIAL SUMMARY

III FINANCIAL SUMMARY

- Exhibit III-1 contains a ten-year financial summary for Plantronics. This table was extracted from Plantronics' 1979 annual report. As shown, the ten years represent an uninterrupted growth in net sales or revenues, in net earnings and in earnings per share. It should be noted that much of this growth is acquistion-oriented, and a number of the acquisitions were completed on a pooling-of-interest basis, causing the restatement of previous years' revenues and earnings. Exhibit III-1 also indicates a continuous growth in current assets and total assets and a constant growth in working capital.

- More significantly, Exhibit III-1 also indicates a constant increase in annual sales per average number of employees.

- From 1970 through 1979, the annual sales per employee were approximately doubled from $26,000 per employee in 1970 to $50,000 per employee in 1979. The current figure compares favorably with the computer industry in general.

- Exhibit III-2 contains a quarter-by-quarter comparison of Plantronics' revenues and net income for the first three quarters and the first nine months of fiscal 1979 and 1980. In these nine months, revenues increased during fiscal 1980 over fiscal 1979 by approximately $7,150,000. During the comparable time-frame, net earnings decreased by approximately $115,000.

- During the first half of fiscal year 1980, Plantronics' management indicated that a stronger second half would somewhat compensate for the weak second

EXHIBIT III-1

10 YEAR FINANCIAL SUMMARY

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
SUMMARY OF OPERATIONS FOR THE FISCAL YEAR										
NET SALES	$86,579	$69,311	$57,735	$39,814	$31,137	$25,796	$20,729	$14,826	$11,455	$10,434
NET EARNINGS	8,731	7,895	6,020	4,606	3,395	3,020	2,373	1,579	890	653
EARNINGS PER SHARE (IN DOLLARS)										
PRIMARY (a)	1.39	1.28	.98	.77	.60	.54	.44	.30	.17	.13
FULLY DILUTED (b)	1.39	1.28	.98	.76	.58	.54	.44	.30	.17	.13
RESEARCH AND DEVELOPMENT	7,721	5,363	3,757	2,010	2,589	2,133	1,340	901	441	405
CASH DIVIDENDS	797	536	363	295	74	-	-	-	-	-
CASH DIVIDENDS PER SHARE (IN DOLLARS)	.13	.10	.07	.06	.01	-	-	-	-	-
RETURN ON AVERAGE STOCKHOLDERS' EQUITY (PERCENT)	22	25	25	25	23	28	30	28	21	19
FINANCIAL POSITION AT END OF FISCAL YEAR										
CURRENT ASSETS	$45,589	$37,520	$30,068	$21,894	$17,125	$13,488	$10,024	$ 7,911	$ 5,853	$ 4,472
CURRENT LIABILITIES	10,711	10,019	8,663	5,311	4,414	3,130	2,700	2,201	1,273	1,063
WORKING CAPITAL	34,878	27,501	21,405	16,583	12,711	10,358	7,324	5,710	4,580	3,409
RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES	4.26	3.74	3.47	4.12	3.88	4.31	3.71	3.59	4.60	4.21
PROPERTY, PLAN AND EQUIPMENT - NET	17,110	7,841	5,724	4,149	3,535	2,145	1,643	1,089	979	1,047
TOTAL ASSETS	64,030	46,525	36,879	26,750	21,035	16,158	12,059	9,347	6,902	5,692
SOTCKHOLDERS' EQUITY	45,612	35,358	27,356	21,198	16,322	12,703	9,202	6,624	4,791	3,886
BOOK VALUE PER SHARE (IN DOLLARS)	7.41	5.99	4.70	3.70	2.90	2.30	1.76	1.29	.94	.76
SHARE OF COMMON STOCK OUTSTANDING (c)	6,159	5,903	5,822	5,734	5,620	5,224	5,222	5,152	5,098	5,119
AVERAGE COMMON AND COMMON EQUIVALENT SHARES	6,296	6,171	6,124	5,988	5,662	5,613	5,345	5,307	5,170	5,171
OTHER STATISTICAL DATA										
BACKLOG AT END OF FISCAL YEAR	$29,628	$18,663	$22,596	$ 8,278	$13,182	$ 6,676	$ 3,913	$ 3,674	$ 2,308	$ 1,178
EXPENDITURES FOR PROPERTY, PLAN AND EQUIPMENT	11,022	3,296	2,434	1,099	1,559	718	764	286	101	150
NUMBER OF EMPLOYEES AT END OF FISCAL YEAR	1,906	1,389	1,360	998	903	789	699	380	358	401
ANNUAL SALES PER AVERAGE NUMBER OF EMPLOYEES	$ 50	$ 50	$ 49	$ 42	$ 37	$ 35	$ 39	$ 40	$ 30	$ 26

(a) BASED ON THE WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON STOCK EQUIVALENT SHARES OUTSTANDING AFTER GIVING RECOGNITION TO THE STOCK SPLITS IN FISCAL YEARS 1977, 1976, AND 1972

(b) BASED UPON THE DILUTIVE EFFECT OF USING THE FISCAL YEAR-END MARKET PRICE INSTEAD OF AVERAGE MARKET PRICE IN CALCULATING THE NUMBER OF COMMON EQUIVALENT SHARES

(c) OUTSTANDING SHARES HAVE BEEN ADJUSTED FOR THE TWO-FOR-ONE STOCK SPLITS IN 1977 AND 1976 AND THREE-FOR-TWO STOCK SPLIT IN 1972

(d) THE AMOUNTS SHOWN ABOVE FOR YEARS PRIOR TO 1979 ARE DIFFERENT FROM THOSE PREVIOUSLY REPORTED BECAUSE WE HAVE RESTATED THESE AMOUNTS TO INCLUDE THE RESULTS OF WILCOM PRODUCTS, INC

EXHIBIT III-2

QUARTER-BY-QUARTER COMPARISON - FISCAL YEAR 1980 WITH FISCAL YEAR 1979

REVENUES (BY QUARTER)				
FISCAL YEAR	1ST	2ND	3RD	9 MONTHS
FISCAL YEAR 1979	19,285	21,813	21,635	62,733
FISCAL YEAR 1980	23,245	23,128	23,519	69,892

INCOME				
FISCAL YEAR	1ST	2ND	3RD	9 MONTHS
FISCAL YEAR 1979	1,853	2,165	1,988	6,006
FISCAL YEAR 1980	2,105	1,887	1,897	5,889

quarter; however, when management announced third-quarter results, they indicated that their operating income continued to be adversely affected by the expenses surrounding the introduction of their LTEX and Roadrunner product lines. Furthermore, according to management's comments, sales seemed to be slowing, further aggravating expense overruns.

IV MANAGEMENT AND REPUTATION

IV MANAGEMENT AND REPUTATION

- The senior management of Plantronics now consists of a unique blend of entrepreneurial and engineering talent. The founders of Plantronics are typical entrepreneurs who have been able to leverage a narrow product line (headsets) into a broad-based line of communications-oriented equipment. As can be noted from the contents of the report, Plantronics' growth has been based on a "buy" (acquisition) rather than a "build" philosophy.

- The concept of being a sole source supplier to the AT&T operating subsidiaries through Western Electric has been a sound one for Plantronics. The cash flow resulting from this approach gave Plantronics the financial resources necessary to initiate its acquisition program.

- The recent additions to senior management from the management ranks of subsidiary companies has brought the engineering/manufacturing element to Plantronics' corporate management. This blend of management is now proving advantageous to promoting Plantronics' future growth. Furthermore, management now has some depth beyond the entrepreneurs/founders who originated the company.

- The single glaring weakness within Plantronics' management group is the marketing area. Plantronics has not yet attempted to build a formal marketing organization. This is always an extremely difficult and expensive task which will tax the management resources of Plantronics.

- Plantronics' reputation is outstanding within the context of its chosen product lines. Western Electric's endorsement is difficult to gain and has important fall-out effects on Plantronics' other product lines. Conversely, Plantronics is an unknown in the expanded markets it is viewing, especially in the "office-of-the-future" marketplace. It will have to build a new reputation step by step if it is to succeed in these new market areas.

V ACQUISITION-RELATED DATA

V ACQUISITION-RELATED DATA

- This section, containing INPUT's opinions of Plantronics as an acquisition candidate, is divided into two subsections: A., Compatibility with Pitney-Bowes' Goals and B., Acquisition Approach.

A. COMPATIBILITY WITH PITNEY-BOWES' GOALS

- Plantronics was originally selected as a potential acquisition candidate because, from a product line point of view, Plantronics had developed a rather comprehensive series of products, all oriented towards both data and voice communications. Furthermore, it is apparent from Plantronics' activities during the past two years that its management recognizes the need to produce computerized, communications-oriented systems and systems components. Therefore, Plantronics should be an organization compatible with Pitney-Bowes' stated goal of entering the "office-of-the-future" marketplace.

- Plantronics' history, until the last few years, has been primarily one of selling its products through communications common carriers to end users and the customers of common carrier organizations. Therefore, while Plantronics' management is particularly adept at the engineering and production of communications-oriented systems and products, it is INPUT's opinion that Plantronics' management is not oriented towards developing the marketing and distribution infrastructure that is required to sell an "office-of-the-future"

system or system components to a broad-based marketplace. Even considering Plantronics' overseas marketing activities, the company has shown a marked trend to enter into some form of joint venture with a foreign national organization.

- Therefore, the ability of Pitney-Bowes to bring the strengths of a nationwide marketing, distribution and service organization to the acquisition discussions should enable Pitney-Bowes to approach these discussions from a position of strength. In addition, the obvious problems that Plantronics' management is having during fiscal 1980 indicates that Plantronics will not be able to focus management's attention on building the marketing organization which is necessary to compete outside of the umbrella of the Bell system.

- Moreover, the recently established Plantronics Research Corporation in Sepulveda (CA) would provide Pitney-Bowes with an R&D facility oriented towards high-technology products and systems which should satisfy its fundamental goals of an acquisition providing sufficient resources to Pitney-Bowes for R & D activities in these various areas oriented towards high technology, communications and computer-systems.

B. ACQUISITION APPROACH

- INPUT believes that the management of Plantronics should be approached initially through a third-party organization. There is still a founder's mentality within Plantronics, on the parts of both the Chairman and the President, who were founders of the firm. This might cause an emotional barrier if they were approached directly by Pitney-Bowes' management. Conversely, the current management of Plantronics is acquisition-oriented and, although it has been the acquiring company over the years, it certainly understands and respects the potential synergies involved in an acquisition of one firm by another. A third-party such as an accounting firm or an investment banking company, as opposed to a business broker, could possibly explore Plantronics' managements'

attitudes in a subtle way to determine whether further conversations held directly with Pitney-Bowes' management would be appropriate.

- Plantronics' management fully recognizes the need to market its products outside the private and public communications-oriented arena. It understands the hazards of direct competition with other, larger firms and would conceivably welcome discussions with a larger, well-established organization such as Pitney-Bowes.

- The significant advantages of the Pitney-Bowes' field organization should appeal to Plantronics' management as a means of rapidly selling and servicing their products in a multidimensional marketplace.